Cotton and the currency

[New York?]

[1896?]

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COTTON AND THE CURRENCY.

There are two periods in the cotton trade when prices were the lowest: between 1840 and 1845, and 1890 and 1895.

The price currents of 1845 quote middling cotton in New York as low as 5 cents (Shepperson as low as 4 cents); in New Orleans 5⅜, and in Mobile 3¼ cents. The United States Department of Agriculture Bulletin on the "Production and Price of Cotton for One Hundred Years" states that in 1842 an Alabama planter sold 17 bales of cotton in Mobile for 3½ cents a pound. March 1, 1894, cotton in New York fell to 5 9-16 and in the same year to 4⅞ in New Orleans and Mobile, but it never reached so low a point as in 1842 and 1845.

What was the cause of these low prices?

The advocates of free silver coinage say it was due, 1840-'45, to a contraction of the currency. Examine the figures below and see if this is true:

Year.	Specie in United States.	Cotton prices—New York.
		Cents.
1835	$51,000,000	17.45
1837	73,000,000	13.25
1840	83,000,000	8.92
1843	90,000,000	7.25
1845	96,000,000	5.63

Here we see—the figures are official—that while the volume of metallic money (the only real good money in those days) was increasing, the price of cotton was declining. The greatest contraction of the currency accompanied by the circulation of the depreciated State-bank money, much of which was worth less than 25 cents on the dollar, occurred in 1843. But that year cotton was worth 7¼ cents, while in 1845, when it was at 5 cents and less, the volume of money of all kinds was over $30,000,000 greater than in 1843. Is it reasonable, therefore, to declare that the contraction of the currency was the cause of the low prices?

From 1840 to 1845, inclusive, there was an accumulation of surplus stock of cotton such as the world had never witnessed, nor yet was prepared for. At this period the surplus at the close of the year should not have been more than about 425,000 bales; instead of this, at the close of 1840 there were 673,000; 1841, 761,000; 1842, 807,000; 1843, 1,055,000; 1844, 1,101,000; and 1845, 1,219,000 bales.

The trade journals of those days saw what the trouble was. "The causes that have brought down the price," says Hazard's Register, "are real and uncontrollable. The evil lies not in the banks, nor the currency, nor the speculators. There is no remedy but a check on production." De Bow's Review said: "To our great disparagement, the facts show that we have been guilty of the folly of overstocking the markets of the world."

What has been the cause of low prices since 1890? The figures below show the amount of money in circulation, the per capita circulation, and the prices of cotton:

Year.	Circulation in United States.	Per capita.	Price of cotton.
1870	$675,212,000	$17.50	23.98 cents.
1873	751,881,000	18.04	18.15 "
1875	754,101,000	17.16	15 "
1880	973,282,000	19.41	12.02 "
1885	1,292,568,000	23.02	10.54 "
1890	1,429,251,000	22.82	11.53 "
1894	1,660,808,000	24.28	6.26 "

These figures (which are the official Treasury figures) show that while the volume of money has increased the price of cotton has declined. In fact, when the volume of money in circulation (in 1894) amounted to more than at any time since the beginning of the Government cotton was actually lower than at any time since 1845.

Mr. Thomas Ellison, of Liverpool, the greatest authority in the world on cotton statistics, in reply to the inquiries of a Southern cotton planter has written under date June 15, 1895:

> As a matter of fact, the price of silver has no direct influence upon the price of cotton. * * * The fall in silver since 1873 is due mainly to overproduction, to reduced cost of production, and to the artificial support given to the value of silver by the various legislative enactments of the United States. The fall in cotton is also due to overproduction, and the reduced cost of production. There is absolutely no connection between the fall in silver and the fall in cotton. * * * As to the alleged connection between silver and cotton, how comes it that silver is to-day 2d. per ounce higher than it was a year ago, while cotton is one-fourth pence per pound lower? * * * Respecting the effect of any change in your currency laws, I don't think the cotton market here would be influenced in any way. Competition and the action of the law of supply and demand would reduce all changes to a minimum. Business with your country would be more troublesome, as it was before you adopted the gold standard, but that would be all.

An examination of the market quotations of the price of cotton and silver from day to day will prove that Mr. Ellison is correct. The prices of cotton and silver the past few months show that while silver has declined cotton has gone up. July 23, of this year, silver in New York was worth 68 15-16 cents per fine ounce, while cotton was 7 3-16 cents a pound; September 19, silver had fallen to 65 11-16, while cotton had advanced to 8 5-8.

There is abundant proof that the low prices of cotton in the past few years have been due almost solely to overproduction. Beginning with 1890 there was an enormous accumulation of surplus stocks. The amount left over at the close of 1890 in the European ports, to say nothing of the large surplus in our own ports, was 1,947,000 bales, in 1891 2,253,000, in 1892 1,963,000, in 1893 1,832,000, and in 1894 2,484,000. The cause of this was the three enormous crops in 1890-91, 1891-92, and 1894-95; the first being 8,652,000, the second 9,035,000, and the third 9,476,000 bales.

Mr. Ellison says as to prices in 1891: "The course of prices was constantly downward owing to temporarily overloaded markets for both the raw material and the manufactured article." And of prices in 1892: "The cotton industry of Europe in general has, during the past season, been adversely affected by an unforeseen excessive supply of the raw material. Never before has the unconsumed stock of cotton at the opening of the season been so large." Of the crop of 1894 he says that "with fair supplies from other countries even a nine million bale crop would have been largely in excess of the world's requirement." According to the commercial estimates the crop of that year was 900,000 bales in excess of these figures.

In 1892 the United States Senate appointed a special committee, of which Senator George, of Mississippi, was chairman, to investigate the condition of agriculture and the causes of the low prices of farm products. The avowed object of that investigation was to prove that the speculation in futures and the demonetization of silver were the causes of low prices. The preponderance of evidence taken by that committee published in Vol. I of their report shows that in the opinion of the witnesses, some of whom were cotton planters, the low prices were due mainly to overproduction. There is very convincing evidence that the cotton planters believed this, for early in the spring of 1895 they held a convention in Jackson, Miss., and resolved to reduce the acreage as the only sure remedy against low prices. The result was they did reduce the area some three millions of acres, a much smaller crop was made, and prices, as we all know, advanced considerably.

It is the law of supply and demand that regulates the price of cotton, as it does all other commodities the world over. The price of the surplus product of any country is, moreover, fixed according to this law, in whatever market consumes the surplus. The mills of the United States only take about one-third of our annual crops, the other two-thirds is exported to European mills. We can always rely on supplying our own mills with every pound wanted, but whenever our crops are short of the European demand prices will advance. On the other hand, if there is good reason to believe there is going to be a superabundant crop, too much for the needs of the foreign trade, prices are sure to decline. Experience teaches us that a reduction in acreage, as in 1895, or a drought as during the present year, will advance prices, but there is no evidence in history that an inflation of the currency will do this, independent of demand. We can not control the price in any way whatsoever so long as we make more than we can use. We are bound to rely upon the foreign mills to take the surplus and pay us the best price they may offer, which will be determined by the supply of the world.

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